

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER COMPANY and IES UTILITIES INC.	DOCKET NOS. EEP-94-40 EEP-95-1
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ORDER APPROVING, WITH CONDITIONS, PLAN MODIFICATION

(Issued February 21, 2001)

On January 16, 2001, Interstate Power Company (Interstate) and IES Utilities Inc. (IES) filed with the Utilities Board (Board) an application to modify their energy efficiency plans, identified as Docket Nos. EEP-94-40 and EEP-95-1, respectively. Interstate's energy efficiency plan was initially approved on September 8, 1995, and IES' energy efficiency plan was initially approved on April 25, 1995. The requested modifications do not change previously-approved budgets or energy or capacity savings goals for Interstate or IES but would allow Interstate and IES to offer an additional option, "Performance Contracting," to their currently-approved marketing plan options. A portion of the current budgets for the Custom Rebate and Non-residential New Construction programs would be reallocated to fund Performance Contracting. No objections to the proposed modifications were filed.

Interstate and IES state that Performance Contracting is focused on stimulating the energy efficiency market by assisting energy service providers in taking on the added risks of total project development rather than providing a direct rebate to the customer. The proposed program pays participating project developers

a risk premium based on actual performance one year after the energy efficiency equipment has been installed and in operation. Interstate and IES state this is designed to encourage more extensive energy savings projects and foster long-term relationships between project developers and their customers.

Interstate and IES in their request commit to offering mandatory workshops to interested project developers no later than two months after approval of the modifications. The utilities also state they will initiate a promotional campaign for their customers three months after approval. Interstate, IES, or other Alliant Energy Corporation (Alliant) subsidiaries may attempt to qualify as project developers. If IES and Interstate participate, it will be on a below-the-line basis. In addition, Interstate and IES represent that any "risk premium" earned by an Alliant affiliate will not affect energy efficiency funds or budgets for the Custom Rebate and Non-residential New Construction programs.

This is the first time in Iowa that an energy efficiency program has proposed to pay a "risk premium" to the project developer. Under the proposed modifications, this premium is paid only if the estimated savings have occurred. To ensure that savings in fact occur, the premium is not paid until one year after the energy efficiency equipment has been installed and is in operation. An independent engineering consultant with energy efficiency expertise will verify savings. To encourage project development, IES and Interstate propose to make a lump sum payment to the project developer equivalent to 50 percent of the guaranteed annual cost savings the customer achieves for the first three years. The risks the payment is intended to compensate for include sales expenses such as lead generation,

proposals declined by the customer, customer defaults on a performance contract, risks of guaranteed energy savings not realized due to unforeseen circumstances, and financing costs.

In 1996 the General Assembly removed the Board's authority to grant rewards or impose penalties for a utility's energy efficiency performance. Prior to 1996, Iowa Code § 476.6(19)"e" provided, in part, that "if the board determines sufficient justification exists . . . the board may allow the utility to collect an amount as a reward or may require an amount to be deducted from the recovery of expenditures and related costs as a penalty." However, the risk premium proposed to be paid here is not a reward or penalty as contemplated by prior statute. Any risk premium is paid to the project developer out of expenditures and related costs of the energy efficiency programs and is not an amount on top of energy efficiency expenditures and related costs to be paid to the utility by ratepayers. The payment is an incentive to achieve guaranteed results and is similar to rebates paid to customers as incentives to purchase certain energy efficient equipment or appliances. However, with a rebate, there are no savings guarantees.

The Board has some reservations concerning Alliant's participation, either through IES, Interstate, or another subsidiary, as project developers. Because IES and Interstate are also the project administrators, they bear the burden of ensuring that the process of determining who is the project developer for a particular project is a fair and equitable process. IES and Interstate should consider adopting processes to ensure consistency and fairness in the qualification of developers, selection of projects, and evaluation of projects. For example, a rating system could be

developed. However, the system should not exclude out-of-state developers. IES and Interstate should also consider establishing an advisory committee to consult on the implementation and future development of the program. Members of the committee, if established, should not have any affiliation with Alliant but could, for example, have representation from intervenors, academia, and other energy efficiency experts.

While the Board at this time will not mandate that IES and Interstate adopt the suggestions outlined above, the Board will condition its approval of the plan modification on IES and Interstate satisfying the following requirements. First, it is unclear from the proposed modification whether Performance Contracting is intended to be a separate program or a modification of two existing programs. The Board will require that IES and Interstate establish Performance Contracting as a separate program, with its own budget and an administrator whose primary function is the implementation of this program. Consistent with this requirement, the program will be authorized at the budget levels for 2001 and 2002 described in the January 16, 2001, plan modification filing at pages 9 through 11. The budgets for 2001 for the Custom Rebate and Nonresidential New Construction programs will be maintained at the levels specified in the Board's January 5, 1999, order and the budgets for 2002 will be as described at pages 9 through 11 of the plan modification filing.

Second, the Board will require IES and Interstate to participate in quarterly meetings with the Board's staff and other interested parties, including the Consumer Advocate Division of the Department of Justice, to discuss results and progress in

implementing all energy efficiency programs. The meetings will also address the process for selecting project developers for the Performance Contracting program to ensure that all developers have equal access. These meetings should be scheduled to coincide with current quarterly meetings held with Interstate.

IT IS THEREFORE ORDERED:

The proposed energy efficiency plan modifications filed by IES Utilities Inc. and Interstate Power Company on January 16, 2001, are approved, subject to the conditions contained in this order.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Judi K. Cooper
Acting Executive Secretary

/s/ Diane Munns

Dated at Des Moines, Iowa, this 21st day of February, 2001.